Yukon Economic Outlook 2003

Yukon
Finance

104-04026/

Yukon Economic Outlook 2003

Whitehorse, Yukon
February 2003

Yukon
Finance

© 2003 Department of Finance
Yukon Government
Box 2703
Whitehorse, Yukon
Y1A 2C6

phone: (867) 667-5343
fax: (867) 393-6217

ISSN 1209-0034

Also available at:
http://www.gov.yk.ca/depts/finance/

Table of Contents

1. Outlook for Global, U.S. and Canadian Economies

- Global Economy 1
- United States Economy 2
- Canadian Economy 3

2. Outlook for the Yukon Economy

- Economic Output 4
- Population 5
- Labour Force and Employment 6
- Consumer Prices 7
- Mineral and Commodity Prices 8

3. Sectoral Outlook

- Mining 9
- Oil and Gas 10
- Forestry 11
- Other Renewable Resources 12
- Construction 13
- Tourism 14
- Government 15
- Retail and Wholesale Trade 16

Table of Key Economic Indicators 17

Sources for Indicators 18

1. Outlook for the Global, U.S. and Canadian Economies

Global Economy

World economic growth is expected to be held back by the possibility of war in Iraq and other global economic and political troubles. Global economic growth is expected to average 2.2% in 2003 before accelerating to 3.0% in 2004.

Global Economic Forecast
Real GDP Growth

Region	*2002*	*2003*
United States	2.5%	2.3%
Latin America	-0.5%	1.0%
Japan	-0.3%	0.2%
Emerging East Asia	4.3%	5.0%
Euro zone	0.8%	1.3%
United Kingdom	1.5%	2.0%
Developing Countries	3.5%	3.8%

Source: *CIBC World Markets Forecast, Jan 16, 2003*

Euro zone activity is expected to increase in 2003 following only modest growth in 2002. Stronger growth is unlikely to occur until the second half of 2004 when a revival in global economic trade and ongoing corporate restructuring should lend support.

Consumer consumption in the U.K. is remaining quite strong bolstered by the lowest interest rates in the region in 40 years. Manufacturing, however, remains in a slump and business investment has been declining for the last two years with no relief expected until later in 2003. In consequence, United Kingdom GDP growth is expected to under perform the U.S.

An aging population, lacklustre employment conditions and a consumer 'buy-later' mindset triggered by deflation will continue to stall economic recovery in Japan. Japanese GDP is expected to only show very moderate growth in 2003. Led by massive government-funded infrastructure projects, China's economy continues to grow rapidly, and is expected to lead the world in growth this year as it did in 2002.

Recurring political instability in Argentina, Venezuela and Columbia depressed consumer spending and business expenditures over the last year. Economic recovery in the region will be closely linked to global recovery and an increase in commodity prices. The economic slowdown in the U.S. has also had a negative effect on Mexico's manufacturing sector with decreased trade. Mexico's economic growth will remain tied to increased activity in the U.S.

United States Economy

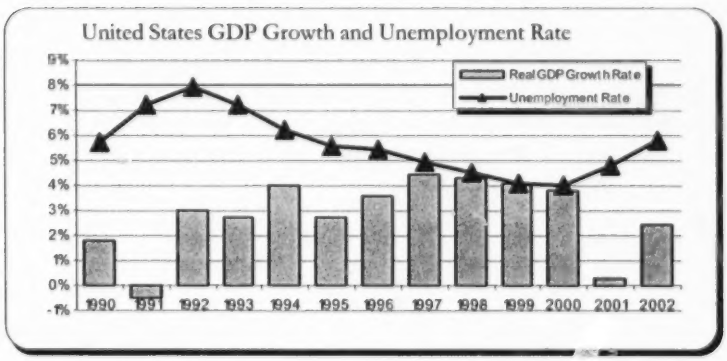
The U.S. economy limped through much of 2001 and 2002, posting a weak real GDP growth rate of 0.3% in 2001 and an estimated 2.5% in 2002. There are currently signs of a cautious recovery in the U.S., led by new business investment. However, there are also some significant risks and mixed signals which could prevent a full-on economic expansion or push the U.S. economy into a recession.

A war with Iraq and the speculation and uncertainty leading up to the possibility represent the biggest current risk to the U.S. economy. A prolonged conflict would likely push up oil prices and higher inflation could result. Business investment would wane under the uncertainties while the U.S. government would shift its resources away from creating fiscal stimulus and towards support for the war effort. A shorter conflict could have a negligible effect on the economy as strategic oil reserves are stockpiled and a large-scale, long-term deployment of military resources would not be required.

The Bush administration has proposed a $674 billion package of measures to stimulate the U.S. economy. The bulk of these measures are in tax cuts and the economic effects are not likely to be felt until well into 2004. Consumer spending on big-ticket items is starting to fizzle and there are risks that it could collapse should interest rates rise.

Despite lower tourism numbers, Alaska experienced continued modest growth in 2002, escaping the slowdown that affected the national economy. Oil production increased in 2002, due to some new wells coming on-stream. However, the outlook from the Alaska oil patch, a key sector of the Alaskan economy, is not as positive in 2003. A long-term trend of declining reserves is expected to result in lower production in 2003, despite the outlook for higher crude oil price. The tourism sector is recovering slowly and cruise-ship visitation is expected to remain flat in 2003.

A bright spot for Alaska is the construction sector with large public projects such as the $250 million missile defense system expected to be in full swing in 2003. Exports of seafood products were up in 2002 and should continue to grow in 2003. Mining production will continue to be impacted by relatively low commodity prices; however Alaska has several gold projects which should benefit from higher gold prices in 2003.



Canadian Economy

Consensus Forecast of the Canadian Economy 2003-2004		
	2003	*2004*
Real GDP	3.2%	3.4%
Unemployment rate	7.4%	7.0%
Inflation (CPI)	2.5%	2.1%
3 Month T-Bill rate	3.5%	4.6%
Long-term bond rate	5.1%	5.7%
Exchange rate (U.S.$/C$)	66.0¢	67.6¢

Average of recent forecasts from the Conference Board of Canada, TD Bank, Royal Bank, CIBC, Scotiabank, Bank of Montreal, Wood-Gundy, and BMO Nesbitt-Burns

The Canadian economy exhibited spectacular growth in 2002. Interest sensitive sectors such as housing and auto sales enjoyed record sales and domestic demand was supported by a white-hot labour market.

Employment growth in 2002 resulted in the national unemployment rate dipping by half a percentage point to 7.6%. Employment growth also met with a large increase in the participation rate as many people were enticed to enter the labour force. Had the participation rate held steady throughout the year the unemployment rate would have dipped below 6.0%.

The Canadian economy is forecast to grow by around 3.2% this year – outperforming the U.S. Although many traditional export sectors such as lumber and automobiles will not fare as well because of continued weakness in the U.S., non-auto exports should perform fairly well as U.S. consumers continue to spend. Demand from Canadian consumers will also support job growth domestically with the national unemployment rate expected to dip still lower in 2003.

The Bank of Canada expects inflation to subside through 2003 but is expected to take action, through interest rate hikes, to lower the pressure on prices if inflation continues. Increases to the short-term interest rates are expected in the second quarter of 2003 while longer-term interest rates are expected to edge up throughout the year.

Economic fundamentals should push the value of the Canadian dollar higher this year and next.

Although economic growth in Newfoundland and Labrador is expected to slow this year from its stellar performance in 2002, it should still lead the provinces again. Offshore energy development will continue to power economic growth in Nova Scotia over the year, while capital spending is projected to provide a lift to the New Brunswick economy.

Western provinces are expected to show better performance in 2003 than in recent years. Alberta is expected to be a leader in economic growth this year due to higher production of crude oil and continued rapid growth in consumer spending. British Columbia and Saskatchewan should also see growth with an upturn in their resource sectors.

Although manufacturing is expected to taper off in central Canada, rising service-sector activity should keep economic growth respectable.

2. Outlook for the Yukon Economy

Economic Output

Outlook for Output

- Yukon's GDP estimated to have grown by 1.0% in 2002 and is forecast to grow marginally in 2003.
- Government and personal expenditures have sustained growth despite declines in population and resource sector output.

The Yukon economy has grown at a modest pace in recent years and is expected to continue to do so in 2003.

A continued slump in resource sectors has made the Yukon economy increasingly dependent on government spending.

Low metal prices over the last few years have led to further declines in mineral production and exploration spending. A softening of oil and gas prices in early 2002 also led to reductions in oil and gas exploration spending.

The Yukon population has been in decline since 1997. Population losses in the 25 – 49 age group have hampered economic growth as these cohorts are key participants in the labour force and contributors to economic output.

Despite all these challenges, the Yukon economy has managed to sustain growth over the last few years. Yukon's real GDP grew by 1.4% in 2001 and by 2.8% in 2000. This growth followed declines of 2.7% in 1999 and 1.2% in 1998.[1]

GDP figures for 2002 year are not available yet, but indications are that the economy grew again.[2] Increased personal and government expenditure, a strong residential construction sector and growth in tourist visitation are likely to have offset declines in the resource sectors. It is estimated that, because of these factors, the Yukon's GDP increased by 1.0% last year after adjusting for inflation. The Yukon economy is expected to grow again by 0.5% this year with sustained consumer spending and increased private sector investment. Resource sector recovery and planned construction projects should help boost the Yukon's economy in future years.

The Alaska Highway Pipeline project is now seen as a longer-term prospect. The project would significantly impact the Yukon economy over the course of its planning, development, operation and decommissioning. A study completed by Informetrica, released in 2002, showed that the project would generate between 32,000 and 50,000 person years of employment and boost GDP by around 30%.

---

1 GDP in this publication is reported on an economic accounts, rather than industry, basis and is adjusted for inflation. GDP figures for previous years were revised in 2002.

2 GDP figures for 2002 will not be available until later in 2003.

Population

Net out-migration contributed to a fifth straight year of population decline in the territory. Although the number of people moving into the Yukon last year increased from the previous year, the number of people leaving the territory also showed a slight increase.

Outlook for Population

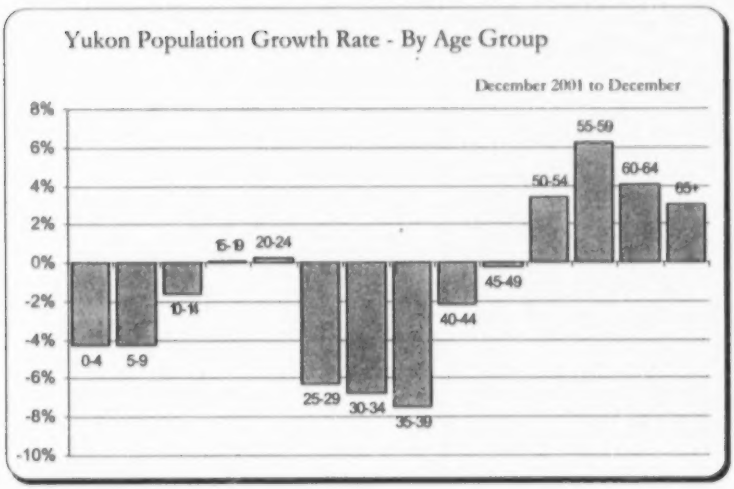
- The Yukon's annual average population is expected to decrease from current levels – averaging 29,800 in 2003

Out-migrants were most often destined to the province of British Columbia in 2002 although the number moving to Alberta was also significant.

Out-migration appears to have continued to be strong among young working age individuals and families with young children. The number of people in the 25 – 39 age group dropped by 6.9% last year, while the number of children under 14 dropped by 3.3%. In contrast, the number of people aged 50–59 increased by 4.6% while the number of Yukoners aged 60 and over increased by 3.4%.

The Yukon Bureau of Statistics reports that Yukon's annual average population decreased by just over 200 in 2002 to an average of 30,036 – a drop of -0.7% from 2001 levels[3]. During 2002 the population fluctuated from a high of 30,280 in January to a low of 29,960 in December.

Almost all Yukon communities experienced a decrease in population over the last year.[4] The largest population decreases were seen in Whitehorse and Dawson City. The only two communities to show an increase in population in the last year were Haines Junction which increased by 28 persons and Destruction Bay which increased by two persons.



The Yukon's annual average population is expected to decrease from current levels – averaging 29,800 in 2003.

---

3 Two different estimates for population are used in the Yukon. Yukon Bureau of Statistics figures are based on the number of people registered for Yukon health care cards. Statistics Canada estimates are based on census counts and tax files.

4 December 2001 to December 2002

Labour Force and Employment

The Yukon's seasonally adjusted unemployment rate hit its lowest level since 1995 when in May 2002 it was reported at 8.7%.

Outlook for Employment

- The labour force is expected to remain similar to 2001 levels at 14,800.
- Unemployment is expected to average about 9.5% this year with 13,400 employed and 1,400 unemployed

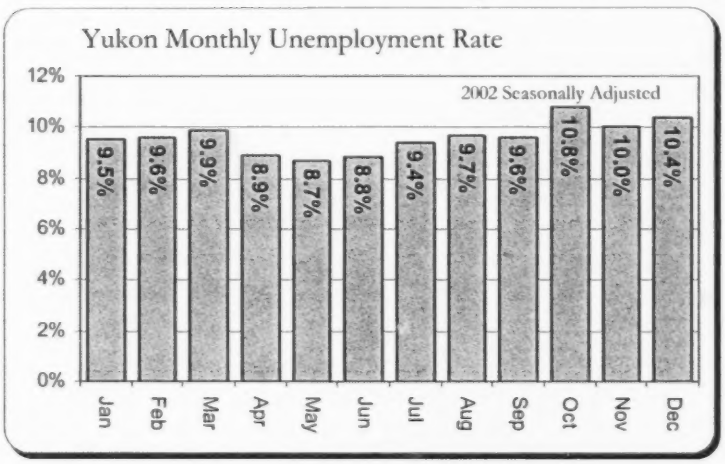
The average annual unemployment rate in 2002 was 9.6% while the average number of people employed increased by 200 from the previous year and the average number of people unemployed dropped by 350. A declining population, however, contributed to a decrease in the average size of the labour force by 142 people over the level in 2001.

The Yukon labour force survey reports that job growth in 2002 was focused in the private sector. Private sector employment increased by 900 on average over the past year while public sector employment decreased by 400. In addition self-employment dropped in 2002 to an average of 2,200 – down from 2,500 in 2001.

While full time employment increased in 2002, part time employment levels remained stable.

Both service and goods producing sectors in 2002 experienced growth fuelled by strong retails sales, a better than expected tourist season, increased residential construction and employment at the CanTung mine.

Employment is expected to remain steady over the next year. An increase in tourist visitation coupled with continued strong retail activity and commercial construction should provide favourable employment opportunities. In addition, the Yukon Government has committed funding to a winter works project and the Community Development Fund which will contribute to additional employment in 2003.



Consumer Prices

Outlook for Consumer Prices

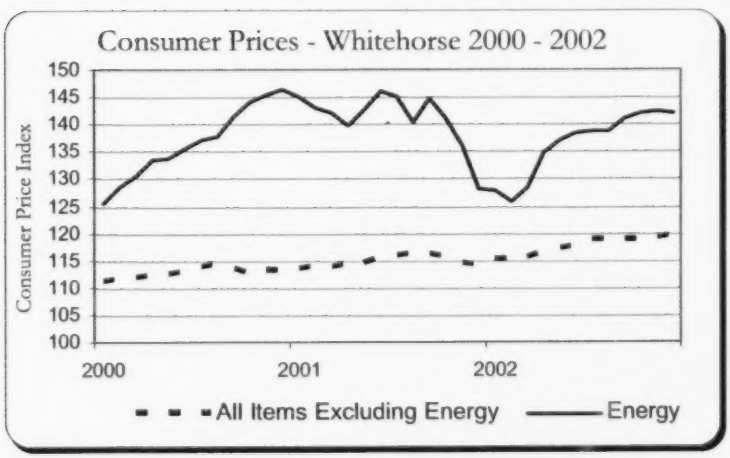
- The consumer price inflation rate in Whitehorse is expected to average 2% or lower in 2003.

Consumer price inflation in Whitehorse averaged 0.7% in 2002, down from 2.0% in 2001. However, the rate of inflation in Whitehorse increased sharply in late 2002 to 3.6% in the December over December comparison. Price increases for automobile insurance premiums, cigarettes and fuel are the main components that are pushing the Whitehorse index higher.[5]

The Whitehorse trend mirrors the movement in the national index in 2002. The national consumer price index averaged 2.2% in 2002, down from 2.6% in 2001. Inflation surged in the last part of the year to 3.9% in the year-over-year comparison for December. This was due largely to the same factors of insurance, tobacco and fuel cost increases that spiked Whitehorse inflation in late 2002. The Bank of Canada expects this inflation to subside through 2003 but will take action through interest rate hikes to lower the pressure on prices if inflation continues.

There is continued uncertainty with the possibility of a war with Iraq. A prolonged conflict would undoubtedly put pressure on inflation due to higher oil costs rippling through the economy. If there is no war or if the conflict is short-lived, the inflationary impacts are expected to be minimal as there are strategic reserves of oil stockpiled in North America and elsewhere to weather a short-term supply disruption.

Consumer price inflation in Whitehorse will likely fall and stabilize to around 2.0% in 2003. Whitehorse could benefit by new retail capacity coming on-stream in late 2003, which would likely put some down-ward pressure on prices. Energy costs are likely to stabilize, barring a prolonged war in Iraq, and the new competitive environment for air travel could reduce transportation costs over the year.



[5] The Consumer Price Index is available in the Yukon for Whitehorse only.

Mineral and Commodity Prices

Outlook for Average Commodity Prices in 2003 – Survey of Forecasts

- Gold: $330 - $341 U.S./oz
- Zinc: $0.36 - $0.37 U.S./lb
- Lead: $0.20 - $0.21 U.S./lb
- Silver: $4.72 - $4.92 U.S./oz
- Copper: $0.73 - $0.77 U.S./lb
- Oil: $25 - $29 U.S./barrel WTI
- Natural Gas: $4.30 - $4.73 U.S./MMBtu
- Lumber: $230 - $260 U.S./mbf SPF 2X4

Gold

Gold prices rose to over $380 U.S./oz in early 2003 carried by a weakening U.S. dollar, uncertainty in the Middle East and speculative purchasing. Forecasters believe the yellow metal will average above $330 U.S./oz in 2003.

Other Base and Precious Metals:

- *Zinc:* large inventories will keep prices low until increased industrial activity materializes later in 2003.
- *Lead:* little change is forecast in the price of lead in 2003
- *Silver:* silver prices were held back in 2002 reflecting weak industrial demand, lower demand in the photography industry and the threat of the sales of silver inventories by China's government. Silver prices are expected to track the movements in gold prices in 2003 although with less volatility.
- *Copper:* sustained demand from China and tighter supply control should provide support for copper prices in 2003.

Oil

Disruptions in Venezuelan oil production and uncertainty regarding U.S. military action against Iraq contributed to crude oil prices rising in the closing months of 2002. There is the potential for huge volatility in crude prices over 2003. Military action against Iraq may cause prices to spike to over $45 U.S./bbl over the term of the action. OPEC should temper a longer term increase in its attempts to keep crude prices within its $22 - $28 U.S./bbl target range.

Natural Gas

Following a rapid correction of an oversupply situation that existed at the end of the last winter heating season, natural gas prices rebounded to $4.84 U.S./MMBtu by the end of 2002. Natural gas prices will probably be supported over the short term by high crude oil prices but are expected to decline once winter demand subsides. However prices are still expected to average higher in 2003 than in previous years.

Lumber Prices

Excess lumber supply in 2002 was the main contributor to prices dropping. Although activity in North American housing markets is expected to moderate this year, demand for lumber is expected to remain healthy leading to a rebound in prices as production levels adjust to the current over-supply.

3. Sectoral Outlook

Mining

Outlook for Mining

- The value of mineral production in the Yukon in 2003 is expected to total $20 to $30 million.
- Placer mining will generate all of Yukon's mineral production in 2003.
- A sustained increase in the price of gold and a strengthened U.S. economy may lead to a more favourable outlook for the mining sector in 2003.

An increase in the price of gold has generated cautious interest in the precious metal sector. There is expectation that metal prices should increase in 2003 and gold should sustain its current higher price. However this is dependent on the situation in the Middle East, recovery of the U.S. economy, and supply/demand factors from western countries and China.

The total value of metallic mineral production in Yukon in 2001 was $39.7 million, compared to $52 million in 2000. There were no operating gold mines in 2001, but continued production of 18,000 ounces of gold by heap leaching at the Brewery Creek Gold Mine added to the 2001 total mineral production.

The value of mineral production in 2002 is expected to total $25 to $30 million. Mineral production in 2002 was sustained mainly by placer gold production, which is estimated at $25.8 million for the 2002 season, and by residual processing of gold from the Brewery Creek Mine leach pad. Mineral production in 2003 is expected to be negatively impacted by uncertainty generated by the announcement by the federal Department of Fisheries and Oceans that they plan to phase out the Yukon Placer Authorization.

The Supreme Court of Yukon has approved an offer by Nevada Pacific Gold to purchase the assets of the Elsa mine site for $3.6 million. The offer is subject to Nevada Pacific Gold completing their due diligence at the site and the resolution of historical environmental liabilities.

The CanTung mine in the Northwest Territories resumed production in January 2002. An estimated 65 people working at the mine are from the Yukon. The company forward sold their production for three years, but has recently scheduled two temporary shutdowns in order to balance the current low price of tungsten with production levels.

Spending on exploration in the Yukon declined further in 2002 to $6.9 million, down from $7.2 million in 2001. Continued insecurity regarding economic recoveries in the United States and tensions in the Middle East cloud the prospects for a full metal sector recovery in 2003; however, an increase in some commodity prices, promotion of available federal and territorial tax credits for mining investors and interest in copper-gold discoveries near Dawson and emerald exploration in the Finlayson area may signal a modest increase for 2003 exploration expenditures.

Oil and Gas

Outlook for Oil and Gas

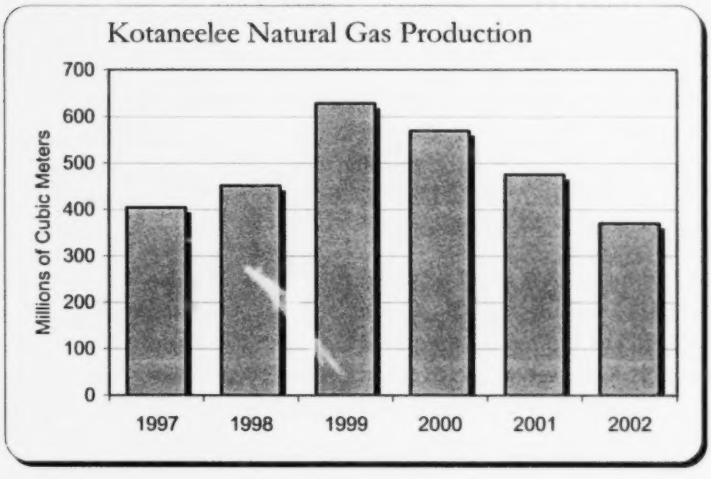
- Despite a recent lull in oil and gas activity, the prospects for new exploration are positive.

Consistent with the trend across the Canadian north, the Yukon's oil and gas sector is experiencing a lull in investment. Lower natural gas prices in early 2002 reduced the resources available to companies to finance exploration projects. As there is currently limited pipeline access in Canada's North, northern projects are often the first to be put on hold.

As a result there was very little exploration activity in Yukon in 2002. The Geological Survey of Canada conducted an aero-magnetic survey in the Peel Plateau with support from the Yukon Department of Energy, Mines and Resources. This program will provide data on the geological potential for oil and gas in the region and should be available in 2003.

Since 1999, the Yukon government has completed three oil and gas dispositions, granting exploration rights to Devon Resources in the Eagle Plains area and to Hunt Oil in the Peel Plateau. The Yukon Government is currently conducting its fourth oil and gas disposition in north and south central Yukon. As additional oil and gas rights are issued, the level of exploration activity is expected to increase.

The Kotaneelee Field in Southeast Yukon continues to produce natural gas and is anticipated to have a production life of another 10 to 15 years. In 2002 the two wells produced about 370 million cubic meters. Production is expected to decrease to 350 million cubic meters in 2003 due to declining production at Kotaneelee Field.



In the longer term, it is expected that the proposed Alaska Highway and the Mackenzie Valley pipelines will both be constructed. This will provide access to markets for northern natural gas.

Forestry

Outlook for Forestry

- It is expected that harvest levels for 2003 year will continue to be lower than average.
- Completion of Forest Management Planning should result in the ability to offer long term tenure agreements in some areas.

Forest products have shown the potential to become a valuable Yukon commodity. A small but diverse group of local forest businesses is currently producing rough green lumber and value added products such as furniture and log homes.

Growth in the forest sector is expected over the long term in the Yukon. This growth will be closely linked to international and national timber markets, the availability of long-term tenure agreements and the continued development of milling and processing capacity within the Yukon.

Nationally, the Canadian wood products market continues to be dramatically affected by the softwood lumber dispute. In the Yukon, this has contributed to a continued slowdown in forest harvesting and processing.

Low lumber prices and a soft timber market led to very little of Yukon's wood supply being harvested in 2002. For the most part wood supplies were available but these allocations were not harvested. It is expected that harvest levels for 2003 year will continue to be lower than average.

In South East Yukon the negotiation and signing of a Forestry Memorandum of Understanding (MOU) between the Kaska First Nations and government slowed the release of wood supply during 2002. It is expected that the increased certainty gained from the MOU will allow for more secure access to timber supply in 2003 and beyond. Additionally, the Forest Management Planning process set out in the MOU will eventually allow for the offering of long-term tenures critical to the forest industries growth in the South East Yukon

In addition, the Teslin Forest Management Plan is expected to be completed this year which will also allow for the development and offering of long-term tenures to the forestry industry.

In the private sector, Kaska Forest Resources has made progress on having its Timber Harvest Agreement awarded and may be in operation in 2003. Arctic Inland Resources in Dawson City is continuing its operation on a small scale, focusing on local markets and exports to Alaska.

Other Renewable Resources

Outlook for Renewable Resources

- Higher forage, beef and game farm production will increase agricultural output in 2003.
- The lake trout harvest in 2003 is expected to decline slightly.
- The value of Yukon fur harvest is expected to increase slowly.

The value of agricultural production sold in the Yukon grew in 2002 to an estimated $4.2 million. The increase in output was due to higher production of forages, cereal grains, poultry, eggs and honey. The production of game farm products and greenhouse produce declined from 2001 levels.

Agricultural output is expected to continue to increase in 2003 on the strength of higher forage and beef production as well as a possible turn-around in the sale of game farm products.

The Yukon River chinook salmon run into Canada in 2002 was below the average return for the 1992-2001 period while the fall chum salmon run was slightly above average. Both runs benefited from closures or restrictions in Alaskan in-river commercial and subsistence fisheries. The chinook fishery was open for five days with a total recorded landing of 708 fish while the fall chum fishery was open for eight days with a total recorded landing of 3,065 fish. The estimated landed value of the commercial catch in 2002 was $23,000.

The signing of the Yukon River Salmon Treaty will see the United States contribute $1.2 million U.S. annually to a bilateral Restoration and Enhancement Fund beginning in 2002. Restoration and Enhancement Projects will be directed at conserving Canadian stocks, developing stewardship of salmon habitat and resources in Canada and maintaining viable Canadian fisheries. The agreement will help provide long-term stability to the Yukon commercial salmon fishing industry.

The estimated volume of commercial production of freshwater fish (lake trout, lake whitefish, and other species) in 2002 was lower than in the previous year. An estimated 1,500 kilograms of lake trout were harvested last year, down from 2,000 kg in 2001. This harvest declined due to fewer commercial fishers operating during the past season. Expectations are that the commercial lake trout harvest will continue to decline over the medium term.

The estimated value of Yukon furs sold at auctions decreased to around $200,000 in 2001/2002. The fur industry is rebounding from the gloomy decade experienced in the 1990's. Fur prices have stabilized and are slowly climbing but trapping interest remains weak.

The Yukon Trappers' Association is in its third year of a market strategy aimed at building interest in Yukon fur as a high quality product. Internationally there are indications that the clothing industry is showing a renewed interest in fur, resulting in growth in retail sales of fur products.

Construction

The value of building construction fell sharply in 2002, despite a very active year for residential home-builders.

The total value of permitted building construction in 2002 dropped by 38%, due in large part to a 78% decline in the value of permitted institutional construction. Commercial construction was also down significantly, falling 67% from 2001 levels. The lack of major projects, such as the Wal-Mart retail facility, to fill the void of 2001 projects is driving this decline.

Outlook for Construction

- Residential construction activity is expected to level off in 2003.
- Based on new commercial activity, the value of permitted building construction is expected to increase to $45 million this year.
- Spending on highway projects down this year, Shakwak project again tops the list.

The bright spot for Yukon's building construction industry in 2002 was the strong performance of the residential sector. Following the national trend, lower interest rates appear to be fuelling continued strong demand for new residential units. The number of residential permits issued was up 24% to 841 and the value of residential construction rose 31% to $20.5 million. Incentive programs offered through Yukon Housing are helping Yukoners invest in housing and are also supporting growth in the residential sector.

The vacancy rate for rental accommodations in Whitehorse continued to drop in 2002, from 9.7% in December 2001 to 7.5% in December 2002. Mortgage rates are forecast to increase modestly in 2003 however there are a number of uncertainties which could change this outlook, including the risk of conflict in Iraq and elsewhere, the potential for a sharp drop in the U.S. economy and inflation-response interest rate increases in Canada. Barring a major change in population or a major increase in mortgage rates, residential construction is expected to level off or decline slightly in 2003.

There were a number of projects announced in Whitehorse in 2002 which could reinvigorate commercial activity in 2003. These include the development of a multi-screen cinema, a new restaurant and a second automobile dealership at the Chilkoot centre. Calgary-based Westfair Foods has announced plans to develop a Superstore retail facility in 2003 on its property located on Second Avenue in Whitehorse.

The City of Whitehorse plans to develop a new public park in the Shipyards area and commence work on the next phase of the multi-plex. The Yukon Government is expected to proceed with upgrades to the Eliza Van Bibber school in Pelly Crossing, continued work on the airport in Dawson City as well as residential development in Whitehorse. The Shakwak project will again account for the majority of highway construction in 2003, with approximately $20 million in spending planned. Work will continue on Alaska Highway upgrades between Champagne and Haines Junction as well upgrades to the Campbell Highway and Tagish Road.

Tourism

The number of people entering the Yukon increased by 10% in 2002. Yukon border crossings[6] last year totalled approximately 312,000, up from 284,000 in 2001. Visitor registrations at Yukon's Visitor Reception Centres also increased in 2% in 2002 over 2001.

In 2002, North American travellers tended to stay closer to home and drive to their destination following the events of September 11th. This led to an increase in U.S. rubber tire traffic to the Yukon and Alaska.

Outlook for Tourism

- Modest growth of around 1% in tourism visitation in 2003. U.S. and Canadian visitation expected to be up slightly but overseas visitation down.
- Winter tourism will increase from a slow year in 2002.
- Wilderness tourism is expected to show modest growth following a flat year in 2002.

The number of licensed wilderness tourism operators in the Yukon is now close to 200. Established firms expect to increase the level of bookings they experienced in 2002. A recent survey by outfitters showed that their clients directly spent over $10.3 million to take Yukon big game hunting trips.

The number of overseas visitors to the Yukon in 2002 declined by 5%. The Yukon is a popular destination for German-speaking travelers and direct flights from Europe will continue for the summer of 2003. The Yukon is marketing in emerging markets such as the United Kingdom and expects to attract an increased number of European tourists who view the Yukon as a relatively safe vacation destination.

Winter tourism should rebound from a slow year in 2002, resulting from cancellations after September 11th, and should continue to grow through 2003. Northern lights viewing for Japanese and Taiwanese visitors and dog-mushing tours are the largest components of the Yukon's winter tourism offerings. Meetings, conventions and incentive travel to the Yukon increased in 2002 and is expected to continue to grow in 2003.

In 2003, travel to Canada will continue to be influenced by the uncertainty in many economies and possible conflict in the Middle East. These continuing events may negatively influence travel from overseas countries but could contribute to positive growth in the number of U.S. tourists to Canada.

According to the Conference Board of Canada, the Yukon can expect modest growth in the number of U.S. visitors in 2003. As well, Canadian visitation could be up in 2003, but growth will be tempered by the situation in Iraq. Overall, Yukon visitation is expected to increase by around 1% in 2003.

---

[6] Border crossing data now includes both Yukon residents and non-residents and, therefore, no longer solely indicates 'visitation'.

Government

The public sector has traditionally provided stability for the Yukon economy. In recent years, government spending has prevented a major economic downturn from the slow-down in resource sectors.

Outlook for Government

- Government spending has helped to stabilize the Yukon economy while resource and commodity prices have declined.
- Increased federal program spending could off-set falling YTG and municipal spending and could add an economic stimulus in 2003.

Almost 40% of the Yukon workforce is directly employed by federal, territorial or municipal levels of government. Many more businesses or individuals indirectly depend on government spending for their livelihood. First Nations governments are playing an increasingly important role in the Yukon, but there is currently little data available on their overall number of employees and expenditures.

The Shakwak corridor highway project, residential land development in the Whitehorse area and Eliza Van Bibber school upgrades are the major capital projects expected to be brought forward by the territorial government in the 2003/04 budget.

The Yukon has recently garnered $500,000 from the federal Knowledge and Innovation Fund and will likely draw more in the new fiscal year.

The federal government has come forth with significant new program spending in 2003. Health care, implementation measures for the recently ratified Kyoto Protocol and infrastructure all received funding in the February federal budget. All jurisdictions, including the Yukon, should benefit from this new federal fiscal spending.

The City of Whitehorse will be proceeding with construction of the Shipyards Park this year as well as beginning development of the next phase of the Whitehorse Multi-plex. Proposed budgetary spending by the City of Whitehorse for this year is $47.6 million, down 4% from 2001 levels.

Significant progress towards settlement of outstanding First Nations Land Claims was achieved in 2002. Agreements-in-Principle were reached with the Ta'An Kwach'an, Carcross-Tagish, Kluane, Kwanlin Dun and White River First Nations. The Ta'An Kwach'an First Nation has ratified its agreement while the others face deadlines this year to complete the ratification process.

The devolution of land and resource management authorities from the federal to territorial government on April 1 will diminish the federal role in the Yukon. Since 1971, with the Justice transfer, a succession of provincial type authorities have been devolved.

Retail and Wholesale Trade

Retail sales grew by 9.7% to $398.8 million in 2002, representing the eleventh straight year of growth.

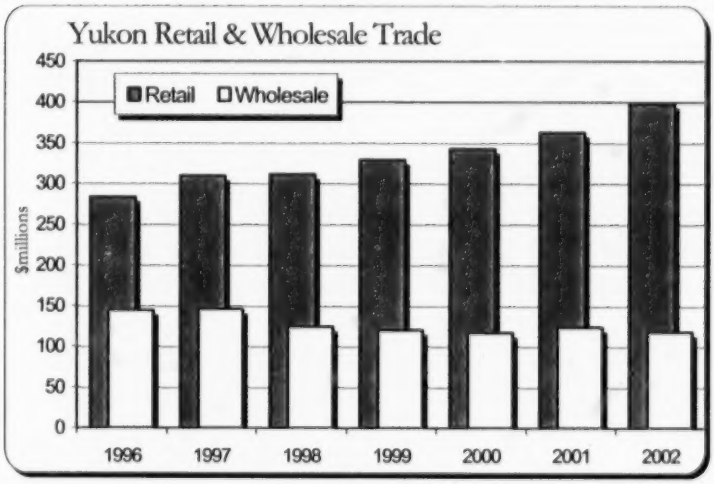
Outlook for Trade

- Increased retail capacity and a rebound in tourism activity will increase the value of retail sales this year.
- Retail trade sales are expected to increase by 5% to about $420 million in 2003.

The Yukon retail sector continues to evolve, largely around new developments at the Chilkoot Centre in Whitehorse. A new automobile dealership joined the Wal-Mart retail facility at the centre in 2002 and further projects are anticipated in 2003. As well, Calgary-based Westfair Foods has announced plans to develop a new Superstore outlet in Whitehorse in 2003.

The continued development of retail capacity should help reduce spending leakages and attract additional spending from south-eastern Alaska and northern British Columbia. Off-setting this development trend are recent increases in the value of Canadian dollar, a sluggish U.S. economy and the potential for moderate interest rate increases. These factors should take some of the steam out of Yukon retail sales growth but the value of retail sales is still expected to increase by around 5% in 2003.

Across Canada, retail spending has increased at twice the rate of personal disposable income over the past decade. High levels of spending have led to a significant drop in the personal savings rate, which fell to 3.5% in 2001 from 12.9% a decade ago. The situation in the Yukon is much healthier. While the level of retail spending in the Yukon has grown much faster than disposable income, the personal savings rate in the Yukon remains one of the highest in Canada at 14.5% of personal disposable income.



Wholesale sales are estimated to have decreased by 4.5% last year, following an increase 5.7% in 2000. In contrast to retail sales, which have steadily increased each year since 1991, wholesale sales have declined in four of the last five years.

Key Economic Indicators Summary Table

Indicator	2001	2002	2003(f)
Population, Prices, Rates †			
Population	30,273	30,063	29,800
Inflation Rate (CPI for Whitehorse)	2.0%	0.7%	2.0%
Prime Rate	4.03	4.21	5.10
Canada/U.S. Exchange Rate	0.658	0.637	0.660
Employment †			
Labour Force	15,025	14,883	14,800
Employment	13,275	13,475	13,400
Unemployed	1,767	1,417	1,400
Unemployment Rate	11.7%	9.6%	9.5%
Economic Output			
Real Gross Domestic Product (1997$)	$1,110 million	$1,120 million (e)	$1,125 million
Real GDP Growth Rate	1.4%	1.0%	0.5%
Commodity Prices †			
Gold	$271.04 U.S./oz	$309.73 U.S./oz	$330 - $341 U.S./oz
Silver	$4.37 U.S./oz	$4.60 U.S./oz	$4.72 - $4.92 U.S./oz
Lead	$0.216 U.S./lb	$205 U.S./lb	$0.20 - $0.21 U.S./lb
Zinc	$0.402 U.S./lb	$0.353 U.S./lb	$0.36 - $0.37 U.S./lb
Copper	$0.716 U.S./lb	$0.707 U.S./lb	$0.73 – 0.77 U.S./lb
Oil (West Texas Intermediate Crude)	$25.87 U.S./barrel	$26.09 U.S./barrel	$25 - $29 U.S./barrel
Natural Gas	$4.02 U.S./MMBtu	$3.36 U.S./MMBtu	$4.30-$4.73 U.S./MMBtu
Lumber (2x4 SPF)	$250 U.S./mbf	$237 U.S./mbf	$230 - $260 U.S./mbf
Mining			
Value of Mineral Production	$39.7 million	$25 - $30 million(e)	$20 - 30 million
Exploration Expenditures	$7.2 million	$6.9 million	---
Oil and Gas			
Volume of Natural Gas Production	465,000,000 m^3	370,000,000 m^3	350,000,000 m^3
Tourism			
Border Crossings+	284,000	312,000	315,000
Government			
Net YTG Expenditures*	$490 million	$477 million	---
Construction			
Permitted Building Construction	$47.9 million	$29.7 million	$45 million
Retail Trade			
Value of Retail Sales	$363.1 million	$398.8 million	$420 million

e = estimated, f = forecast,
-- = not available
† annual averages
** 2001 = 2001/2002; 2002 = 2002/2003; 2003 = 2003/2004.*
+ Not including train arrivals, air arrivals, marine arrivals in Dawson City. Includes Yukon residents..

Data Sources:

Indicator	Source
Population	2001 and 2002: Yukon Bureau of Statistics, *Yukon Population Estimates.* 2003: Yukon Finance forecast.
Inflation (Consumer Price Index)	2001 and 2002: Statistics Canada, *Consumer Price Index.* 2003: Yukon Finance forecast.
Prime Rate	2001 and 2002: Bank of Canada (average of end of the month rates). 2003: Conference Board of Canada forecast.
Canada/U.S. Exchange Rate	2001 and 2002: Bank of Canada (daily average noon rate). 2003: Yukon Finance survey of forecasters.
Labour Force Indicators	2001 and 2002: Yukon Bureau of Statistics *Yukon Employment.* (Seasonally-adjusted figures.) 2003: Yukon Finance forecast.
Economic Output (GDP)	2001: Statistics Canada, *Provincial Economic Accounts* Cat. No.13-213. 2002 and 2003: Yukon Finance forecast.
Metal Prices	2001 and 2002: London Metal Exchange: metalprices.com, kitco.com. 2003: Yukon Finance survey of forecasters.
Value of Mineral Production	2001: Yukon Bureau of Statistics. 2002: Natural Resources Canada Minerals and Metal Sector ISSN 0709-292X (SS# 00-12) and Yukon Finance 2003: Yukon Finance forecast.
Exploration and Development	2001 and 2002: Department of Indian Affairs and Northern Development, Exploration and Geological Services Division.
Natural Gas Production Volume	All years: Energy, Mines and Resources, Oil and Gas Branch.
Tourism Visitation	2001 and 2002: Yukon Bureau of Statistics and Yukon Business, Tourism and Culture. 2003: Tourism Yukon, from *Travel Markets Outlook 2003* – The Canadian Tourism Research Institute, Conference Board of Canada.
YTG Expenditures	All years: Yukon Finance.
Permitted Building Construction	2001 and 2002: Yukon Bureau of Statistics. 2003: Yukon Finance and Yukon Community Services.
Retail Trade	2001 and 2002: Statistics Canada, *Retail Trade,* Cat. No. 63-005. 2003: Yukon Finance forecast.

Internet Web Sites of Reference

Yukon Energy Mines & Resources	http://www.emr.gov.yk.ca/
Yukon Finance	http://www.gov.yk.ca/depts/finance/
Yukon Bureau of Statistics:	http://www.yukonweb.com/government/ybs/
Statistics Canada:	http://www.statcan.ca/
Bank of Canada:	http://www.bankofcanada.ca/
MetalPrices	http://www.metalprices.com/
Kitco Inc.	http://www.kitco.com/
Natural Resources Canada	http://www.nrcan.gc.ca/
Industry Canada Strategis	http://strategis.ic.gc.ca/